



JOHN ELIAS BALDACCI
GOVERNOR

STATE OF MAINE
MAINE REVENUE SERVICES
P.O. BOX 1067
AUGUSTA, MAINE
04332-1067

ADMINISTRATIVE & FINANCIAL SERVICES
REBECCA M. WYKE
COMMISSIONER

JEROME D. GERARD
ACTING EXECUTIVE DIRECTOR

Income/Estate Tax Division

Maine Revenue Services Rule 803 Revised

Maine Revenue Services recently completed revisions to Rule 803, "Withholding Tax Reports and Payments." The new rule, which may be viewed on the MRS web site at www.maine.gov/revenue/rules/, includes changes reflecting the recently enacted electronic filing mandate and various other changes designed to clarify the rule and improve taxpayer convenience. These changes include, among others:

- Incorporates the statutory requirement for certain employers and payroll processors to file quarterly returns and the Annual Reconciliation (Form W-3ME) by electronic means. Electronic filing is required for employers, and third party filers filing on behalf of employers, with 100 or more employees, and for licensed payroll processors filing returns on behalf of 100 or more clients. The new electronic filing requirements are already in effect. Information about electronic filing is available on Maine Revenue Services web site at www.maine.gov/revenue/netfile/gateway2.htm.
- Eliminates the "Married with Two Incomes" withholding rate and instead provides that a married employee or payee may elect withholding at the single rate. As a result, the 2007 Maine Withholding Tables booklet will **not** include the "Married with Two Incomes" withholding tax schedules and tables. Maine Form W-4ME has been revised to reflect this change.
- Clarifies that a nonresident employee who is exempt from Maine income tax due to the 10-day nontaxable threshold is exempt from Maine withholding and is not required to complete Form W-4ME unless the threshold is exceeded.
- Requires employers to maintain records adequate to establish how many days a nonresident employee worked in Maine.
- Revises the circumstances under which an employer or other payer must withhold at the maximum rate. These include situations in which an employee has not provided Form W-4ME to the employer; the employee's federal Form W-4 or Maine Form W-4ME is invalid; or an employee's current Maine withholding variance certificate has expired and the employee has not provided a new certificate or a completed Form W-4ME.
- Clarifies that withholding on periodic retirement payments is calculated in the same manner as withholding on wages.

- Incorporates an option for employees with no Maine tax liability in the current or prior year to elect out of Maine income tax withholding. The election must be renewed annually.
- Incorporates an option for recipients of periodic retirement payments who have no Maine tax liability to elect out of Maine income tax withholding.
- Revises the criteria under which an employer or other payer must submit copies of an employee's Form W-4ME to Maine Revenue Services. Employers must now submit a copy Form W-4ME to MRS if required to submit Form W-4 to the IRS or if an employee with a non-Maine address claims exemption from Maine withholding and the employer expects to pay the employee \$5,000 or more in Maine source compensation for the year. Forms W-4ME are not required to be submitted for employees exempt from withholding due to the 10-day nonresident threshold.
- Clarifies that employers or other payers who did not withhold Maine income tax from employees or payees during the year are not required to submit an Annual Reconciliation (Form W-3ME).

Except for the electronic filing requirements, all changes to Rule 803 are effective January 1, 2007.

Form W-4ME has been updated to incorporate the new optional single withholding rate for married employees and the new elections for exemption from Maine income tax withholding. Employers and other withholders must begin using the new version of Form W-4ME on or before January 1, 2007 for all new employees and payees and all employees and payees who make any changes to their withholding. The revised version of Form W-4ME is available on Maine Revenue Services web site at www.maine.gov/revenue/forms/with/2007.htm.

Existing employees and payees will not need to complete a new Form W-4ME unless they wish to make a change to their withholding, take advantage of one of the new exemptions or (for married taxpayers) to elect withholding at the single rate. Employees who are currently withholding at the "Married with Two Incomes" rate will need to submit a new Form W-4ME by January 1, 2007, at which time the employee must select a withholding rate specified on the form.